



National Procurement Fraud Task Force

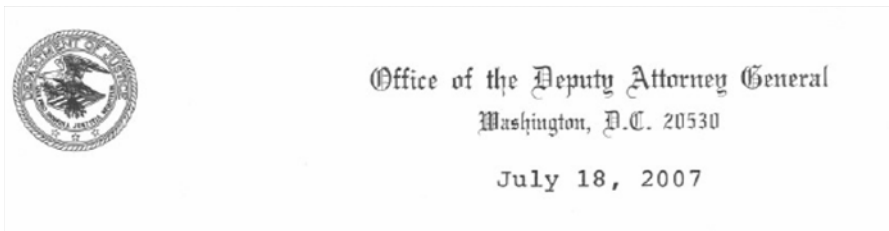
Progress Report

July 2007

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To My Colleagues on the National Procurement Fraud Task Force:

I want to express my deepest appreciation for your partnership with the Department of Justice in our procurement and grant fraud initiative. Working with you on this important collaborative effort has been truly rewarding.

These efforts will continue to pay dividends as we bring to justice those who violate the trust relationship essential to effective procurement. The need to monitor, audit, and investigate grant and contracting practices is an essential mission of government. Bribery and corruption in government contracting violate the public trust and challenge the public's faith in the honesty and integrity of government. The cases we have recently prosecuted continue to show our commitment to rooting out procurement fraud wherever we find it. We could not have accomplished so much in the past year without the work of our dedicated Procurement Fraud Task Force members.

I encourage all of you to continue your participation in the Task Force and I assure you the Department of Justice is fully committed to this initiative. Assistant Attorney General Alice Fisher, the Chair of the Task Force, has often told me that this initiative is among the highest priorities of the Criminal Division and will stay that way. Brian Miller, Inspector General for GSA and the Vice-Chair, and Steve Linick, Executive Director, will continue to work closely with Alice to advance the goals of the Task Force. Be assured that you have an outstanding team at the helm to ensure the success of this important effort.

It has been a longstanding goal of mine to help develop a close working relationship between the Department of Justice and those agencies that refer matters to us for litigation. I am very pleased to have had this opportunity to work with the fine people in the Inspector General and law enforcement communities. You are truly committed to protecting the taxpayer and our government from fraud and corruption.

I wish all of you the best in the future.

Sincerely,

A handwritten signature in black ink, which appears to read "Paul J. McNulty".

Paul J. McNulty
Deputy Attorney General

TASK FORCE MEMBERS

The National Procurement Task Force includes the following members:

Air Force Office of Special Investigations (USAF-OSI);

Antitrust Division, DOJ;

Army Criminal Investigation Command (Army CID);

Army - Legal Services Agency;

Civil Division, DOJ;

Criminal Division, DOJ;

Defense Contract Audit Agency (DCAA);

Defense Criminal Investigative Service (DCIS);

Defense Contract Management Agency (DCMA);

Environmental and Natural Resources Division, DOJ (ENRD);

Executive Office for United States Attorneys, DOJ (EOUSA);

Federal Bureau of Investigation (FBI);

Federal Law Enforcement Training Center (FLETC);

Internal Revenue Service-Criminal Investigations (IRS-CI);

Naval Acquisition Integrity Office;

Naval Criminal Investigative Service (NCIS);

National Security Division, DOJ;

Office of Management and Budget (OMB) - Office of Federal Procurement Policy, Acquisition Policy (OFPP);

Tax Division, DOJ;

United States Attorneys' Offices (USAOs);

United States Postal Inspection Service (USPIS); and

Inspectors General (OIG), including:

- Agency for International Development (USAID);
- Amtrak;
- Central Intelligence Agency (CIA);
- Corporation for National and Community Service (CNCS);
- Defense Intelligence Agency (DIA);
- Department of Agriculture (USDA);
- Department of Commerce;
- Department of Defense (DOD);
- Department of Education (Education);
- Department of Energy (DOE);
- Department of Health and Human Services (DHHS);
- Department of Homeland Security (DHS);
- Department of Housing and Urban Development (HUD);
- Department of Interior (Interior);
- Department of Justice (DOJ);
- Department of Labor (Labor);
- Department of State (DOS);
- Department of Transportation (DOT);
- Department of the Treasury (Treasury);
- Department of Veterans Affairs (VA);
- Environmental Protection Agency (EPA);
- General Services Administration (GSA);
- Government Printing Office (GPO);
- National Aeronautics and Space Administration (NASA);
- National Geospatial Intelligence Agency (NGA);
- National Reconnaissance Organization (NRO);
- National Science Foundation (NSF);
- National Security Agency (NSA);
- Nuclear Regulatory Commission (NRC);
- Office of the Director of National Intelligence (ODNI);
- Small Business Administration (SBA);
- Social Security Administration (SSA);
- Special Inspector General for Iraq Reconstruction (SIGIR);
- Treasury Inspector General for Tax Administration (TIGTA); and
- United States Postal Service (USPS).

I. TASK FORCE SUMMARY AND MISSION STATEMENT



“The public needs to have faith in the integrity of the procurement system and know that anyone who is cheating the system will be held accountable.”

Assistant Attorney General for the Criminal Division, Alice S. Fisher

A. Background

In October 2006, Deputy Attorney General Paul J. McNulty announced a new national procurement fraud initiative established by the Justice Department’s Criminal Division to promote the early detection, prevention, and prosecution of procurement and grant fraud associated with increased contracting activity for national security and other government programs. In partnership with U.S. Attorneys’ Offices, the Justice Department’s Civil, Antitrust, Environmental and Natural Resources, National Security, and Tax Divisions, and other federal law enforcement agencies, the Department formed the National Procurement Fraud Task Force, chaired by Assistant Attorney General Alice S. Fisher of the Criminal Division, to intensify the government’s detection efforts and to continue prosecuting those who defraud taxpayers. The Executive Director of the Task Force is Steve A. Linick, who spearheaded a procurement fraud task force in the Eastern District of Virginia and is now a Deputy Chief in the Department’s Criminal Division, Fraud Section. Brian Miller, the IG for GSA, is the Vice-Chair of the Task Force.

In designing the Task Force, the Department recognized that the key to a renewed and sustained effort against procurement fraud is an energized and empowered IG community working in tandem with the FBI and federal prosecutors. Among others, the federal agencies participating in the Task Force include the FBI, SIGIR, and the Offices of Inspectors General for DOD, CIA, NASA, GSA, DOJ, DHS, DOE, NSF, VA, NRC, SBA, SSA, USPS, ODNI, NRO, NGA, DOS, DOT, Treasury, HUD, Interior, and USDA. In addition, all defense-related investigative agencies - DCIS, NCIS, Army CID, USAF-OSI - are full participants. The Task Force is focusing resources at all levels of government to increase criminal enforcement in areas

of procurement fraud to have the most substantial impact. These areas include defective pricing or other irregularities in the pricing and formation of contracts, product substitution, misuse of classified and procurement sensitive information, false claims, grant fraud, labor mischarging, bid rigging, false testing, false statements, accounting fraud, fraud involving foreign military sales, ethics and conflict of interest violations, and public corruption associated with procurement fraud.

The Task Force has established the following objectives relating to procurement fraud:

- 1) Increase coordination and strengthen partnerships among all IGs, law enforcement, and DOJ to fight procurement fraud more effectively;
- 2) Assess existing government-wide efforts to combat procurement fraud;
- 3) Increase and accelerate civil and criminal prosecutions and administrative actions to recover ill-gotten gains resulting from procurement fraud;
- 4) Educate and inform the public about procurement fraud;
- 5) Identify and remove barriers to preventing, detecting, and prosecuting procurement fraud;
- 6) Encourage greater private sector participation in the prevention and detection of procurement fraud; and
- 7) Evaluate and measure the performance of the Task Force to ensure accountability.

B. Summary of Accomplishments

The Task Force is off to a successful start. It has formed key working committees and is already identifying and removing barriers to preventing, deterring, and prosecuting procurement fraud. The Task Force has been enthusiastically embraced by the entire law enforcement community, including the FBI, the IGs and defense-related agencies. The Task Force's working committees have been meeting regularly and, as discussed in this report, have made significant progress. The Task Force itself has already held three full meetings with more than 125 representatives from more than 30 agencies in attendance. Overall, we now have more effective resource allocation in procurement fraud investigations, which has resulted in the acceleration of investigations and prosecutions. The Task Force has taken a coordinated and unified approach to combating procurement fraud related to the wars in Iraq and Afghanistan and reconstruction efforts in those countries. This combined effort of Task Force members has resulted in significant accomplishments, including those highlighted below:

- The Task Force has created working committees chaired by a high-level member of the IG community or the FBI. These working committees, which consist of representatives

from multiple agencies, address common issues such as training, legislation, intelligence, information sharing, private sector outreach, grant fraud, and international procurement fraud.

- In order to improve coordination and information sharing in cases related to the global war on terror (GWOT), a Joint Operations Center (JOC) has been set up at FBI headquarters in Washington D.C. to serve as the nerve center for the collection and sharing of intelligence regarding corruption and fraud relating to funding for GWOT.
- There has been an increase in specialized training for OIG agents and prosecutors on the investigation and prosecution of procurement fraud cases. In June 2007, the Task Force sponsored its first annual procurement fraud training course for prosecutors at the National Advocacy Center (NAC) in Columbia, South Carolina. It has also developed a training course for investigators which will be offered in Fall 2007.
- The Task Force has established a public website, <http://www.usdoj.gov/criminal/npftf>, which has assisted suspension and debarment officials by listing in a single location, press releases related to recent procurement and grant fraud cases.
- Since the Task Force was created, more than 200 procurement fraud cases involving approximately 300 defendants have resulted in criminal charges, convictions, civil actions, or settlements. These cases are summarized on the Task Force's website.

Figure 1 - National Procurement Fraud Task Force



- The Task Force has formed numerous regional working groups, chaired by U.S. Attorneys to implement the Task Force's goals regionally by working with their local federal law enforcement counterparts to bring about timely and effective procurement fraud prosecutions.
- The Task Force has encouraged an unprecedented level of collaboration and coordination at all levels of government to combat procurement and grant fraud.

II. Accomplishments of the Task Force

A. Prosecution and Enforcement

Since the announcement of the Task Force in October 2006, the Task Force is tracking approximately 200 civil and criminal procurement fraud cases against approximately 300 civil and criminal defendants. Approximately 48 U.S. Attorneys' Offices are involved in prosecuting these cases, which cover the gamut of procurement fraud, including false claims, grant fraud, false statements, bid rigging, kickbacks, bribery, false testing, defective pricing, and product substitution, among others. In at least one of the cases mentioned below (United States v. Myles), the defendant's conduct -- namely, making false representations concerning the condition of aircraft parts -- posed a substantial risk of death or serious bodily injury to the aviation community. These cases also involve procurement fraud related to the wars in Iraq and Afghanistan, and the rebuilding of those countries, to which DOJ has devoted significant prosecutorial and investigative resources. DOJ has been working with Army CID, DCIS, FBI, and SIGIR, as well as the IRS-CI and other IGs, and traditional law enforcement partners, to investigate and prosecute GWOT cases and has already developed a track-record of success in this area. All of these cases are summarized on the Task Force website. We have highlighted some of the more recent cases below:

1. Case highlights:

United States v. Fischetti et al. (Antitrust Division)

On July 10, 2007, Robert Fischetti, former Sales Director of Peck & Hale LLC, located in West Sayreville, N.Y., was sentenced to ten months in prison for participating in two separate conspiracies to rig bids on military contracts for tie-down equipment and cargo securing systems to secure cargo on vehicles, vessels and aircraft, and for metal sling hoist assemblies that are used to transport items such as bombs and other munitions. In addition, Fischetti, a sub-contractor employee, solicited and accepted a kickback from another lower-tiered sub-contractor in 2002 in return for favorable treatment in the award of subcontracts for finishing work on products supplied to DOD. Previously, in February 2007, two Pennsylvania executives, Thomas Cunningham and Richard Barko, pleaded guilty to rigging bids on these contracts and currently await sentencing. DCIS investigated this case.

United States v. Affiliated Computer Services, Inc. (Northern District of Texas)

On July 3, 2007, Affiliated Computer Services, Inc. (ACS) headquartered in Dallas, Texas, agreed to pay the U.S. \$2,645,987.30 to settle allegations that it violated the civil False Claims Act. The government contends that ACS submitted inflated claims for payment between 2002-2005 for programs run by and through the USDA, Labor, and the Administration for Children and Families of DHHS. This case was investigated by Labor OIG, DHHS-OIG, USDA-OIG, and the Texas Workforce Commission.

United States v. Shah (District of Maryland)

On June 12, 2007, Ketan R. Shah pleaded guilty to conspiracy to defraud the U.S. and obstruction of a federal audit in connection with false claims totaling more than \$1.3 million submitted to the IRS. Through his company, Public Affairs International, Inc., the defendant overstated expenses and understated income on an IRS contract to organize informational programs concerning changes in federal tax law. In addition to the criminal charges, a civil complaint was also filed against Brosim S. Ekpone seeking damages of \$4.2 million based on the same factual allegations. Ekpone is scheduled for trial on August 21, 2007. The investigation was conducted by TIGTA.

United States v. Bahel (Southern District of New York)

On June 7, 2007, Sanjaya Bahel, a former procurement supervisor at the United Nations, was convicted of honest services mail and wire fraud and for corruptly accepting payments as an official of an organization receiving federal funds. The evidence at trial established that a co-defendant, Nishan Kohli, who had previously pled guilty, provided the defendant with cash and other substantial benefits for his assistance in defrauding the United Nations Procurement Division. The defendant is scheduled to be sentenced on September 10, 2007. The case was investigated by the FBI.

United States v. Torres, et al. (Western District of Texas)

On May 18, 2007, six defendants, including Ignacio Ruelas Torres, an Infrastructure Coordinator/Project Officer with the U.S. Medical Command at Fort Sam Houston, were indicted in connection with a multimillion dollar bribery scheme to steer U.S. Army medical department contracts at Fort Sam Houston. The indictment alleges acts of bribery, kickbacks, and fraud to ensure that a company that employed one of the defendants, Sphinx Consultant and Associates, would receive government contracts. This case is being investigated by the FBI, IRS-CI, Army-CID, GSA-OIG, Interior OIG, DCIS, and SBA-OIG.

United States v. Bill Harbert International Construction, et al. (Civil Division)

On May 14, 2007, a federal jury in Washington, D.C. returned a verdict finding five companies and one individual liable under the False Claims Act for conspiring to rig bids for construction contracts funded by USAID in Egypt. The jury awarded the U.S. \$34 million in damages. The damages are subject to trebling under the False Claims Act. The jury also found that defendants had submitted 111 false claims. The United States has requested that the Court enter a judgment for treble damages of \$103 million and \$1,100,000. The case was investigated by USAID-OIG.

United States v. Lucas (Eastern District of Virginia)

On May 11, 2007, Nadine B. Lucas, owner of Management Control Systems (“MCS”), was sentenced to four months in prison and an additional four months of home detention for conspiring to pay illegal gratuities to fellow King George County resident, Michael A. Causer, who was working at the Department of Public Works, Naval Facilities and Engineering Command, at the Naval Surface Warfare Center, Dahlgren, Virginia. In September 2003, with assistance provided by Causer, MCS was awarded a \$2 million GSA-approved contract to provide a broad range of information technology services. After the GSA contract was awarded, Lucas gave Causer gratuities for his past and anticipated future assistance to her company. The investigation was conducted by NCIS and the FBI.

United States v. Griffin (Criminal Division)

On May 3, 2007, Hollis L. Griffin, the former director of the U.S. Virgin Islands Department of Planning and Natural Resources (DPNR) Division of Environmental Protection was sentenced to four years in prison for conspiring to defraud the Virgin Islands government of approximately \$1.4 million. Griffin was also sentenced to three years of supervised release, and ordered to pay more than \$1 million in restitution. Griffin and two co-conspirators used a fictitious company, Elite Technical Services, as well as other companies, to obtain \$1.4 million in government contracts. The co-conspirators paid bribes and kickbacks totaling over \$300,000 to at least four territorial government officials, including Griffin. Griffin’s two co-conspirators were sentenced to a combined 51 months in prison and were required to pay over \$1 million in restitution. This case was investigated by the FBI, Treasury-OIG, IRS, EPA-OIG, USPS-OIG, and the Virgin Islands OIG.

United States v. Del Monico (Northern District of Illinois)

On April 19, 2007, defendant Patrick Del Monico was indicted in a twenty-count indictment on four separate swindles committed over the course of a decade while he was the transportation manager for Indeck Power Equipment Co., and later when he was a sales representative for Demar Logistics Inc., a transportation and warehouse storage company. The defendant is alleged to have created fraudulent invoices for goods and services and made false statements to defraud his employers, the DOD and the USAF, of more than \$8 million, and subsequently to engage in a separate bankruptcy fraud scheme. The U.S. Trustee Program, which supervised the administration of the bankruptcy case, cooperated with the investigation of the alleged scheme.

United States v. Pugh, et al. (Northern District of Alabama)

On April 19, 2007, two contractors and a former assistant director of the Jefferson County Environmental Services Department were sentenced for bribery and conspiracy connected to their work on the Jefferson County sewer system. Defendant Grady Roland Pugh, Sr. was sentenced to 45 months in prison for conspiracy to commit bribery. The defendant was chairman of the board and part owner of Roland Pugh Construction, Inc., a company which, according to evidence at trial, received over \$85 million in sewer construction contracts from Jefferson County. Defendant Pugh’s co-defendants entered pleas of guilty and cooperated. The investigation was conducted by the FBI.

United States v. ITT Corporation (National Security Division and Western District of Virginia)

On March 28, 2007, ITT Corporation, the leading manufacturer of military night vision equipment for the U.S. Armed Forces, admitted sending export controlled materials overseas and agreed to pay a \$100 million penalty to the U.S., one of the largest penalties paid in this type of criminal case. The company pleaded guilty in the Western District of Virginia to one count each of export of defense articles without a license and omission of statements of material facts in arms exports reports. The case was investigated by DCIS, DHS-OIG, and Immigration and Customs Enforcement.

United States v. Myles (Southern District of Florida)

On March 9, 2007, defendant George Myles, Jr. was sentenced to 76 months imprisonment for making fraudulent representations concerning the condition of aircraft parts, following a two-week jury trial. The defendant was the owner of Myles Aviation, Inc., which was awarded numerous Department of Defense contracts to provide various aircraft parts to the U.S. Air Force. Myles also provided numerous parts to civilian purchasers. In each of the instances, Myles falsely certified that the parts were new, surplus, or airworthy. However, the parts that were certified as new or surplus were in fact purchased on the open market, and neither Myles nor Myles Aviation was licensed by the Federal Aviation Administration to perform any inspections, repairs, or overhauls, and thus could not certify the airworthiness of aircraft parts. At sentencing, the court found that defendant had defrauded in excess of 50 victims out of more than \$1 million and that his conduct posed a substantial risk of death or serious bodily injury to the aviation community. The case was investigated by the DOT-OIG, DCIS, USAF-OSI, Treasury OIG, and USPS-OIG.

United States v. Ferrell (Western District of Washington)

On March 2, 2007, defendant Robert Ferrell, a government contracting employee of the Federal Aviation Administration, was indicted for conspiring to steer a \$4.3 million government construction contract to install lighting at the Seattle-Tacoma Airport. The defendant was charged with conspiring with a fellow FAA employee who has already pleaded guilty to the offense. The company to which the defendant steered the contract was provided with inside information that allowed it to lower its bid by \$55,000 and win the multi-million dollar bid by a mere \$4,300. That company, PCL Inc., acknowledged the receipt of confidential information, cooperated with the investigation, and agreed to a civil settlement calling for its payment of \$1 million and the payment of restitution to the losing bidder. This case was investigated by the DOT-OIG, the FBI and the IRS.

United States v. Vheru (Central District of California)

On March 2, 2007, defendant Matthias Charles Vheru was arrested on an indictment that charged him with fraud for causing the Los Angeles Unified School District to pay nearly \$4 million for an algebra textbook that he had written, netting him nearly \$1 million in royalties and fees. The defendant, who was in a temporary position as supervisor of the Central Office Mathematics Department, had the authority to issue book purchase orders without any oversight. The indictment alleged that, after the defendant was notified that he was to be replaced by

another individual, he executed a scheme for the book purchase in violation of California conflict of interest laws and the district's code of ethics. He subsequently caused the district to pay for the books and other materials that he had ordered by using federal funds that were specifically restricted under the No Child Left Behind Act for programs for limited English proficient students, in addition to non-restricted district funds. The investigation was conducted by DOE-OIG, the Los Angeles Unified School District, Office of the General Counsel, and USPIS.

2. Prosecution of Cases involving the GWOT

The Department of Justice has established a unified and coordinated approach to combat procurement fraud, including fraud relating to the wars in Iraq and Afghanistan and reconstruction efforts in those countries. The Department has devoted a panoply of resources and expertise to this important mission. The Fraud Section, the Public Integrity Section, the Asset Forfeiture and Money Laundering Section, and the Office of International Affairs of the Criminal Division, and the Fraud Section of the Civil Division, are each involved in the fight against procurement fraud and each contributes its resources and unique expertise. The Fraud Section, which has well-established relationships with many IGs, and has prosecuted numerous procurement fraud cases in the past, leads the effort to combat fraud. The Public Integrity Section also has longstanding relationships with the IG community and participates in investigations that involve corruption by government or military officials, as many procurement fraud cases do. The Asset Forfeiture and Money Laundering Section leads the effort to recover taxpayer dollars stolen through procurement fraud by assisting in the swift and comprehensive use of seizure warrants and forfeiture remedies. Recently, Department officials testified before Congress about the Department's views on the War Profiteering Prevention Act of 2007 (See description below, on pages 22-23).

In addition, USAOs such as the LOGCAP Working Group in the Central District of Illinois, have brought numerous criminal and civil procurement fraud cases and are drawing upon their extensive experience to prosecute procurement fraud schemes that are high-profile and sophisticated.

As of July 24, 2007, the Department has charged 26 individuals criminally for public corruption and government fraud relating to the GWOT, which includes matters involving Iraq, Kuwait, and Afghanistan. Eighteen of these individuals have been convicted (eight are awaiting sentencing). The other eight individuals have charges pending either through indictments or criminal complaints. Some of these cases are highlighted below:

- On February 1, 2007, U.S. Army Colonel Curtis G. Whiteford, U.S. Army Lt. Colonels Debra M. Harrison and Michael B. Wheeler, and civilians Michael Morris and William Driver, were indicted for various crimes related to a scheme to defraud the Coalition Provisional Authority - South Central Region (CPA-SC) in al-Hillah, Iraq. Whiteford was once the second most senior official at CPA-SC. Wheeler was an advisor for CPA projects for the reconstruction of Iraq.

- On November 13, 2006, four members of the California Army National Guard pleaded guilty to conspiracy charges related to their embezzlement from the U.S. Army while deployed in Iraq. The defendants, Jennifer Anjakos, Lomeli Chavez, Derryl Hollier, and Louis Lopez were members of the 223rd Finance Detachment, a unit of the California National Guard. Over \$340,000 of unauthorized pay was laundered through various domestic bank accounts. Sentencing for the four co-defendants has been set for September 10, 2007. On June 4, 2007, the fifth and final defendant, Jesse D. Lane, Jr. pleaded guilty to one count of conspiring with the other four to deprive the U.S. of its right to his honest services and one count of substantive honest services wire fraud. Sentencing in his case has been set for September 24, 2007.
- On November 3, 2006, Samir F. Mahmoud, a former employee of a construction company that has contracts with the U.S. Air Force in Iraq, pleaded guilty to making a false statement stemming from an investigation into possible violations of the Anti-Kickback Act. Mahmoud was interviewed by federal agents regarding allegations of illegal payments and gifts offered to company employees in exchange for promised assistance in obtaining, retaining, or altering the Air Force contracts and subcontracts associated with the reconstruction of Iraq. In his guilty plea, Mahmoud admitted that he willfully made materially false statements by denying that he provided gifts to other company employees when he had offered and provided things of value to at least one company employee.
- On October 12, 2006, former civilian DOD employee Gheevarghese Pappen pleaded guilty to accepting illegal gratuities while detailed to the U.S. Army Area Support Group, Host Nation Office at Camp Arifjan, Kuwait, which supports U.S. military operations in Iraq. Pappen was sentenced to two years in prison.

The charges against Whiteford, Harrison, Wheeler, Morris, and Driver stem from an investigation into illegal conduct by Robert Stein, CPA-SC's Comptroller and Funding Officer, and Philip Bloom, a U.S. citizen who resided in Romania and Iraq. Bloom and Stein have pleaded guilty to conspiracy, bribery, and money laundering in connection with a scheme to defraud the CPA, and Stein also pleaded guilty to possession of machine guns and being a felon in possession of a firearm in connection with the scheme to defraud the CPA. Bloom admitted that from December 2003 through December 2005, along with Robert Stein and numerous public officials, including several high-ranking U.S. Army officers, he conspired to rig the bids on federally-funded contracts being awarded by the CPA-SC so that all of the contracts were awarded to Bloom. The total value of the contracts awarded to Bloom exceeded \$8.6 million. Bloom admitted paying Stein and other public officials more than \$2 million in proceeds from the fraudulently awarded bids and at least \$2 million in stolen money from the CPA in order to conceal the source of the funds. On January 29, 2007, Stein was sentenced to nine years in prison and three years of supervised release, and ordered to pay \$3.6 million in restitution and to forfeit \$3.6 million in assets. On February 16, 2007, Bloom was sentenced to 48 months in

prison and two years of supervised release, and ordered to pay \$3.6 million in restitution and to forfeit \$3.6 million in assets.

The LOGCAP Working Group, which operates out of the USAO in the Central District of Illinois, has also filed criminal charges against nine individuals for bribery and kickbacks associated with Iraq reconstruction efforts and military operations in Kuwait. Logcap III is a ten-year competitive contract awarded to Kellog, Brown, and Root (KBR) in December 2001, and incorporates task orders issued by the U.S. Army to support Operation Iraqi Freedom. The cases relating to the Logcap contract involve bribery in the issuance of task orders and include, but are not limited to, the following:

- Anthony Martin, formerly a subcontracts manager for KBR, pleaded guilty on July 13, 2007, to violating the Anti-Kickback Act by engaging in a kickback scheme with the managing partner of a Kuwaiti company in awarding a subcontract related to U.S. military supply lines between Kuwait and Iraq. Martin's sentencing is pending.
- Peleti Peleti Jr., formerly serving as the Army's Theatre Food Service Advisor for Kuwait, Iraq, and Afghanistan, pleaded guilty on February 9, 2007, to bribery. Peleti's sentencing is pending.
- Stephen Seamans, formerly a subcontracts manager for KBR, pleaded guilty to one count

Figure 2 - CPA-SC Comptroller and convicted felon, Robert Stein (in black), standing in front of \$58 million in cash that was used by CPA officials for rebuilding efforts in Iraq



of major fraud against the United States and one count of conspiracy to commit money laundering. He was sentenced on December 1, 2006, to 12 months and one day in prison and ordered to pay \$380,130 in restitution.

- Shabbir Khan, formerly Director of Operations, Kuwait and Iraq, for KBR subcontractor Tamimi Global Co., Ltd., was indicted on multiple counts of wire fraud, witness tampering, conspiracy to commit witness tampering, conspiracy to commit money laundering, and making false statements. He pleaded guilty and was sentenced on December 1, 2006, to 51 months in prison and ordered to pay a \$10,000 fine and \$133,860 in restitution.

B. Training and Initiatives

1. Training for Federal Prosecutors

From June 13-15, 2007, the Task Force sponsored its first procurement fraud training conference. Over 80 civil and criminal prosecutors from across the country convened at the NAC in Columbia, South Carolina, and participated in a comprehensive training program over three days. Each attendee left the conference with an electronic procurement fraud manual and a comprehensive understanding of common fraud schemes and practice tips. The Task Force and the NAC plan to make this program an annual event.

2. National Procurement Fraud Task Force Website

In November 2006, the Task Force created and launched a new website, located at <http://www.usdoj.gov/criminal/npftf>. The website is administered by the Task Force Steering Committee and contains extensive information about:

- Task Force objectives;
- Speeches, statements, and testimony;
- Task Force committee minutes;
- Regional Procurement Fraud Coordinators;
- Press releases on significant procurement and grant fraud cases; and
- IG hotline numbers for reporting procurement and grant fraud.

Figure 3 - National Procurement Fraud Task Force Website Homepage

UNITED STATES DEPARTMENT OF JUSTICE

SEARCH

☐ NPFTF ☐ All DOJ

NATIONAL PROCUREMENT FRAUD TASK FORCE


Press Room

- NPFTF Updates
- How To Report Procurement Fraud
- Regional Procurement Fraud Working Group Coordinators
- NPFTF Committee Minutes
- Procurement Fraud-Related Links
- Criminal Division Home
- DOJ Home

Latest Headlines

- 07/18/2007 - Northrop Grumman to Pay \$8 Million to Resolve Allegations of Improperly Testing Equipment Used by U.S. Military
- 07/13/2007 - Security Firm to Pay U.S. \$18 Million to Resolve Allegations that Firm Failed to Provide Qualified Guards for Army Bases
- 07/13/2007 - Former KBR Employee Admits Violation of Anti-Kickback Act in Awarding Military Subcontract

About the National Procurement Fraud Task Force (NPFTF)


Paul J. McNulty
Deputy Attorney General
Department of Justice

The National Procurement Fraud Task Force was created by Deputy Attorney General Paul J. McNulty on October 10, 2006, to promote the prevention, early detection and prosecution of procurement fraud. "Procurement fraud cheats American taxpayers and harms the government's efforts to obtain the goods and services needed for its mission," said Deputy Attorney General McNulty when the Task Force was formed. "At a time of heightened concern for our nation's security, every tax dollar is precious. We simply cannot tolerate fraud and abuse in government contracting."


Alice S. Fisher
Assistant Attorney General
Criminal Division

The Task Force is chaired by Assistant Attorney General for the Criminal Division Alice S. Fisher, and includes the FBI, the Department of Justice Inspector General and other federal Inspectors General, defense investigative agencies, federal prosecutors from United States Attorneys offices across the country, as well as the Criminal, Civil, Antitrust and Tax Divisions of the Department of Justice. The Task Force's emphasis will be to increase civil and criminal enforcement where it can have the greatest effect, including defective pricing, product substitution, misuse of classified and procurement sensitive information, false claims, grant fraud, labor mischarging, fraud involving foreign military sales, ethics and conflict of interest violations, and public corruption associated with procurement fraud. The Task Force also will focus on maximizing information sharing and take significant leadership in addressing issues such as grant fraud, relations with the private sector, training and legislation.

Locating press releases on the labyrinth of agency websites maintained by each component at Main Justice, each investigating agency, and each of the 93 USAOs has been a significant problem for federal suspension and debarment officials. The new website provides a single location for press releases on indictments, complaints, pleas, settlements and sentencing. It also provides information about reporting procurement and grant fraud (such as IG hotline numbers and on-line fraud complaint forms). Agency suspension and debarment officials have reported that they have been better able to perform their duties now that there is a centralized

location for this information.

The website also provides visibility to the Task Force's efforts and accomplishments in the procurement and grant fraud area and provides clear warning to unscrupulous contractors that procurement and grant fraud will be prosecuted.

Other examples of information which will be accessible through the website that have been (or are being) developed by agencies participating in the Task Force include:

- Central repository for all offerings of government accredited procurement and grant fraud training courses;
- Guides to working and developing procurement and grant fraud investigations; and
- Manuals for the identification of procurement and grant fraud indicators during audits.

3. IG Initiatives, Speeches and Training

To promote the mission of the Task Force, numerous IGs have made presentations about the Task Force to both the public and private sectors, sponsored conferences, and undertaken initiatives and training within their own agencies. For example, Eric Feldman, the NRO IG, launched the NRO-IG's Procurement Fraud Initiative (PFI), which is modeled after the National Procurement Fraud Task Force and which is a multi-faceted proactive effort designed to promote integrity and efficiency in NRO contracting. The initiative focuses on four elements: (1) building relationships with corporate partners; (2) educating NRO employees; (3) educating OIG staff; and, (4) implementing internal proactive fraud prevention and detection efforts. Since implementation of the PFI, procurement fraud related investigations have increased from one percent of NRO-OIG's investigative case load to 64 percent during the last 12 months, and recoveries from criminal, civil, and administrative actions have increased almost 100 percent.

In addition, the NRO-OIG hosted its second annual Business Ethics and Compliance Officers Conference, where 80 contractors representing 22 different companies and government agencies discussed fraud prevention and detection programs and best practices. Assistant Attorney General and Task Force Chair Alice Fisher was a keynote speaker on the proactive role of the Department regarding procurement fraud. Mr. Feldman presented a briefing on the shared benefits of public/private partnerships in fraud prevention and detection.

Similarly, in June 2007, the DHS-OIG sponsored a procurement fraud training conference in Baltimore, Maryland for DHS-OIG criminal investigators, auditors, and inspectors, as well as representatives from NASA-OIG and SSA-OIG. Several representatives from DOJ and the U.S. Attorney's Office in Baltimore made presentations at the conference and

Figure 4 - SBA IG Eric Thorson and Deputy Assistant Attorney General for the Civil Division, Michael Hertz, at the April 12, 2007 Task Force Meeting



discussed the Task Force's mission. In addition, DHS IG Richard Skinner and GSA IG Brian Miller discussed the activities of the Task Force with the Chief Acquisition Officers Council on June 7, 2007.

Task Force members also have participated in outreach activities to enlist private sector participation in the detection of procurement and grant fraud. This outreach is described in more detail below, on page 19.

C. Task Force Working Committees

In order to accomplish the objectives of the Task Force, working committees have been created to address particular issues relating to procurement fraud. Each committee is chaired by an IG with the exception of the International Committee which is chaired by an Assistant Director of the FBI. The chairs of the committees have drafted a strategic plan and mission statement for their respective committees and have presented those plans at previous Task Force meetings. These working committees include the following:

1. Steering Committee

When the formation of the Task Force was announced, a steering committee was formed to: (1) ensure coordination of Task Force activities across the IG, law enforcement, and prosecution communities and to promote the public communication of goals and achievements; (2) facilitate and serve as support for the Task Force working committees and regional working groups; and (3) serve as the principal vehicle for keeping the Assistant Attorney General and the Deputy Attorney General apprised of progress, problems, and opportunities to promote the initiative. The Steering Committee, chaired by Steve Linick, the Executive Director of the Task Force, and by Brian Miller, IG for GSA, meets on a bi-monthly basis.

2. Training Committee

The Training Committee, chaired by David Williams, IG for USPS, seeks to make available the most effective procurement fraud training to auditors, investigators, prosecutors, and procurement specialists.

In March 2007, the Federal Law Enforcement Training Center (FLETC) and the Training Committee distributed a needs assessment questionnaire to Task Force members to collect information necessary to design a new Basic Procurement Fraud Investigation Training Program. The questionnaire made it easy for Task Force members, including representatives from the USAOs and law enforcement agencies, to identify their training needs and inform FLETC staff about particular issues and lesson areas that should be covered in the course.

This outreach paved the way for an intensive three-day planning session that was hosted by the Training Committee and FLETC in late April 2007 with a smaller working group (17 individuals) to develop ideas for the future course. This group consisted of representatives from DOJ, DCAA, DCMA, DCIS, DHS, Army-CID, NCIS and USAF-OSI, along with members of various OIGs including the NRO, USPS, and others. After reviewing the needs assessment questionnaire, the group concluded that a two-week program (eight and one half days) would be the most effective basic training option for criminal investigators, non-criminal investigators, auditors and analysts involved in procurement fraud investigations.

Currently, the goal is to have the pilot for this program ready by Fall 2007. In addition, three modules are being developed that can be adopted from the two-week program and offered as shorter procurement fraud training sessions in the districts which have regional procurement fraud working groups (discussed below on pages 21 and 22).

The Training Committee is currently developing a procurement fraud training “resource center” that will be hosted on the Task Force website. The resource center will assist auditors, agents, acquisition specialists and prosecutors in identifying accredited U.S. government procurement fraud training courses and manuals, and provide them with links to other procurement fraud related websites and computer based training on procurement fraud. The resource center will be operational in September of 2007.

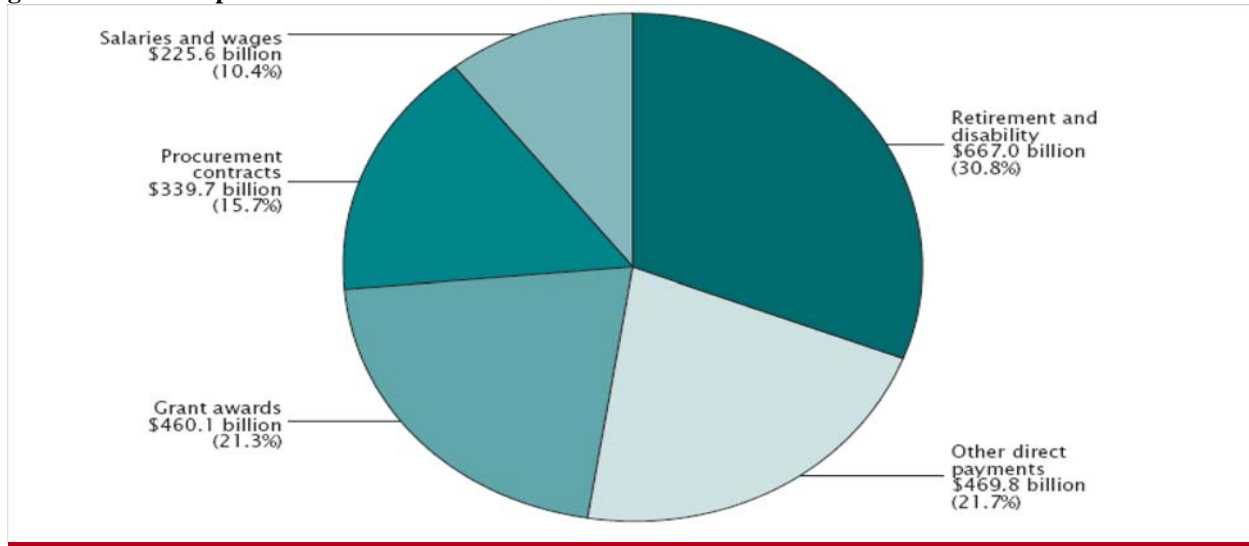
3. Grant Fraud Committee

The Grant Fraud Committee is chaired by Glenn Fine, IG for DOJ. The Grant Fraud Committee has identified its mission as helping improve the federal government's ability to prevent, detect, investigate, and prosecute grant fraud through increased information sharing, training, and outreach. In meeting this mission, the Grant Fraud Committee is focusing on three areas: (1) enhancing information sharing concerning cases and issues related to grant fraud; (2) coordinating efforts to provide training to auditors, agents, and prosecutors on detecting, investigating, and prosecuting grant fraud; and (3) providing outreach to agency program managers who manage federal grant programs and grantees to coordinate prevention, detection, and investigation of grant fraud and to communicate best practices in these areas. In fiscal year 2004, grant awards totaled \$460.1 billion, or 21.3 percent of federal government expenditures (see Figure 5).

In the area of training, the Grant Fraud Committee has coordinated with the Training Committee and FLETC to ensure that the needs assessment questionnaire described above requested information from Task Force members related to grant fraud. The Grant Fraud Committee is continuing to work closely with FLETC to develop a stand-alone Grant Fraud course that will be available to investigators, auditors and other federal employees. In addition, a representative from the Grant Fraud Committee made a presentation to federal prosecutors on how to prosecute grant fraud cases at a recent training course on procurement fraud at the NAC.

Further, the NSF OIG with the support of the Grant Fraud Committee, is preparing to host its sixth annual grant fraud training program, which is scheduled for October 24, 2007. In the area of outreach, the Grant Fraud Committee is working to identify the best anti-grant fraud practices within agencies, to develop training curricula for the agency program grant managers, and to identify whether any changes to existing laws, policies, and practices are recommended.

Figure 5 - Federal Government Expenditure, Amount and Percentages by Major Object Category including grant awards and procurement contracts: Fiscal Year 2004



The Grant Fraud Committee has issued surveys to the IG community to identify key areas of importance and concern. Once this information has been collected, the Grant Fraud Committee will prepare tools such as a training and best practices monograph and distribute these tools widely within the agencies which issue grants. As part of its outreach efforts, the Grant Fraud Committee also is working closely with the Legislation Committee to ensure that appropriate legislative proposals are developed to enhance the integrity of the grant process.

Finally, the IGs involved with the Grant Fraud Committee are reporting successful prosecutions of grant fraud cases. The three cases described below exemplify the type of cases that Grant Fraud Committee members are actively pursuing and encouraging other IGs to pursue.

For example, several IGs, led by the NSF OIG, successfully prosecuted a *qui tam* case against Cosmos Corporation where it was alleged that: (1) a social science research firm billed employees as direct charges to several grants and contracts they did not work on; and (2) the firm also improperly billed bid preparation to federal grants and contracts. The USAO for the District of Maryland successfully negotiated a \$1.55 million civil settlement with Cosmos Corporation. In addition, the defendant firm agreed to implement a compliance plan with corrective policies and to provide yearly status reports to the NSF OIG.

In another case successfully prosecuted by the EPA OIG, the office manager of Tillamook County Soil and Water Conservation District in Oregon embezzled grant money by using an organization credit card to purchase personal items, and paid the credit card bill with grant funds. The office manager pleaded guilty and was sentenced to 21 months in prison. This case is an example of a common grant fraud scheme where the grantee has converted grant funds for personal use.

In a third example, in February 2007, the Executive Director of the Alliance Collegiums Association in Nevada and two local church leaders affiliated with the Alliance pleaded guilty to charges of misusing federal grant funds awarded to the Alliance. In 2002, the Association was awarded a \$423,000 DOJ grant to create a prisoner re-entry program for southern Nevada. An investigation by the DOJ OIG determined that rather than establish the re-entry program, the three individuals expended more than \$330,000 for personal enrichment and thereafter created false documents and made false statements to cover up their activities.

4. Information Sharing Committee

The Information Sharing Committee is chaired by Brian Miller, IG for GSA and Vice-Chair of the Task Force. The Committee's mission is to improve the federal government's ability to detect, prevent and prosecute procurement fraud through improved collection, analysis and sharing of data.

To date, the Information Sharing Committee has undertaken the following activities designed to accomplished its mission:

- ***Established Law Enforcement Online (LEO) as the Task Force platform.***
The Information Sharing Committee has determined that the FBI-managed LEO system, a law enforcement communications network, is the optimal platform for secure communications, including email, message posting, and procurement fraud case information sharing. All Task Force members are able to join LEO, and the members can use the secure network to share sensitive information. The Committee has distributed LEO membership forms to all Task Force members and provided training. Additional training sessions are planned with a strong emphasis on marketing LEO membership to the procurement fraud enforcement community.
- ***Established a Special Interest Group (SIG) on LEO.***
Within LEO, a secured SIG was created for Task Force information sharing. Only Task Force members given access rights by the DOJ SIG moderators can access the SIG. Within the Task Force SIG, committee meeting minutes have been posted, a Task Force SIG member directory has been created, and documents can be posted by the moderators. Task Force members can request access to the SIG once they obtain access to LEO. The SIG will be the principal vehicle for sharing confidential investigative information of common interest to multiple agencies.
- ***Established grant fraud as a key area of concern for information sharing.***
The Committee held a joint meeting with the Grant Fraud Committee to examine common issues associated with information sharing and to determine the best methods for sharing procurement and grant fraud case information. The committees are considering the development of a procurement and grant fraud database.

5. Private Sector Outreach

The Private Sector Outreach Committee, chaired by Eric Feldman, IG for the NRO, and Eric Thorson, IG for the SBA, seeks to enlist private sector participation in the prevention and detection of procurement and grant fraud by encouraging early disclosure of fraudulent activity on government contracts to the IG community. In furtherance of this goal, the Committee has prepared a standard briefing that Task Force members have been using to communicate the merits of active private sector participation in the prevention and detection of procurement fraud. To date, members from the Task Force and the Private Sector Outreach Committee have made presentations to corporate officers/business ethics compliance organizations (namely, Northrop Grumman managers and Lockheed Martin ethics officials), corporate counsels and professional organizations (namely, the Association of Government Accountants, the Professional Services Council, the American Bar Association, the Defense Industry Initiative, the Washington Corporate Counsel for Business Ethics, and the Construction Industry Roundtable), and public interest groups (Taxpayers against Fraud).

6. Legislation Committee

The Legislation Committee, which is chaired by Brian Miller, IG for GSA, and Richard Skinner, IG for DHS, has been meeting weekly to consider a wide array of potential legislative and regulatory reforms that are described in more detail in the Committee's White Paper. Committee members include representatives from the DOJ Civil, Criminal, and Antitrust Divisions, OIGs, and agency procurement officials.

The Committee's White paper is a 30-page document that includes approximately 11 draft regulatory and legislative proposals intended to aid the government in detecting and prosecuting procurement and grant fraud. The Committee is working through these proposals and plans to discuss them at the July 24, 2007 Task Force meeting.

The Committee is currently monitoring several bills pertaining to procurement fraud, including: (1) the Executive Branch Reform Act of 2007; (2) the Honest Leadership and Accountability in Contracting Act of 2007; and (3) the Accountability in Government Contracting Act of 2007.

7. Intelligence Committee

The Intelligence Committee (IC), chaired by Ned Maguire, IG for ODNI, and Peter Usowski, IG for NGA, was formed, among other things, to improve communications among OIGs operating in the intelligence community and identify and remove impediments faced by investigators and prosecutors in pursuing procurement fraud cases involving classified information. The intelligence community includes agencies such as the CIA, NRO, ODNI, and NSA, among others. Cases involving the intelligence community are unique in that they can be challenging to investigate and prosecute when relevant evidence is classified and, therefore, difficult to access and use at trial. To date, the IC has consulted with investigators and federal prosecutors who have experience with cases involving classified information. The IC also has held discussions with officials from various Offices of General Counsels within the intelligence community that are tasked with classifying agency information. The IC's goal is to produce a handbook that will assist investigators, prosecutors, and others in effectively investigating and prosecuting these cases in the future. This is the first time that the intelligence community has examined these issues in any formal way.

8. International Committee

The International Committee chaired by Kenneth Kaiser, Assistant Director of the FBI, functions as an advisory forum for investigative and intelligence agencies involved in combating procurement fraud and public corruption overseas. The International Committee has been meeting every 60-90 days since its inception.

A number of law enforcement agencies participating on the International Committee have also established the International Contract Corruption Task Force (ICCTF) which the International Committee supports and advises. The ICCTF was established in June 2006 as an operational task force consisting of the following charter agencies: FBI, Army CID Major Procurement Fraud Unit, DOD IG, DCIS, DOS-OIG, USAID-OIG and SIGIR. The mission of the ICCTF is that of a joint agency task force that deploys criminal investigative and intelligence assets worldwide to detect and investigate corruption and contract fraud resulting primarily from GWOT. The ICCTF member agencies currently have special agents deployed throughout Europe and the Middle East. This task force is led by a Board of Governors derived from senior agency representatives who operate all major GWOT cases to defend the interests of the United States overseas.

Figure 6 - From left to right, Ralph E. McNamara, Harold J. Wilson, Wesley T. Kilgore, Michael J. Anderson, and Richard C. Beltz, attending the July 10, 2007, open house of the Joint Operations Center (JOC)



Procurement fraud cases, especially those involving the wars in Iraq and Afghanistan, are usually very complex and resource intensive. The cases often involve extraterritorial conduct as well as domestic conduct, requiring coordination between appropriate law enforcement agencies. In order to improve coordination and information sharing, the ICCTF through the International Committee has established a Joint Operations Center (JOC) based in Washington, D.C. The JOC currently serves as the nerve center for the collection and sharing of intelligence regarding corruption and fraud relating to funding for GWOT. The JOC coordinates intelligence-gathering and provides analytic and logistical support for the ICCTF agencies. To date, the JOC has

provided support for over 220 ICCTF cases and has responded to over 65 formal requests for assistance from Task Force members.

D. Regional Working Groups

The Task Force has also formed numerous regional working groups to ensure that the Task Force encourages the investigation and prosecution of procurement and grant fraud nationwide. To date, there are 14 USAOs that have organized their own regional procurement fraud working groups and 13 other USAOs that are participating in those groups. Contact information for the coordinators of these groups is listed on the Task Force website.

The regional working groups, which are chaired by U.S. Attorneys, have implemented the Task Force's goals regionally by working with their local federal law enforcement counterparts to bring about timely and effective procurement fraud prosecutions. These groups are facilitating the exchange of information among participant agencies and assisting them in developing new strategies to prevent, detect, investigate, and prosecute procurement fraud. Many of the groups meet routinely and have offered training on issues such as corporate criminal liability, data mining, and parallel proceedings, among others.

In addition, some of the working groups have reported an increase in civil and criminal procurement and grant fraud referrals since the formation of their groups and are rotating meetings among participant agencies. One group has established a local database of open

Figure 7 - Regional Procurement Fraud Working Group Map



procurement and grant fraud cases to facilitate information sharing among working group participants.

E. Congressional Briefings and Testimony

Congress has expressed keen interest in Task Force progress and its members have provided briefings on the status of the Task Force to congressional staff on multiple occasions. Specifically, Task Force members have met with staff from the House Homeland Security and Government Affairs Committee, the House Armed Services Committee, and the Senate Armed Services Committee.

Members of the Task Force also have testified before Congress regarding the status of Task Force initiatives and the Department's efforts to combat procurement fraud. Specifically, on June 19, 2007, Barry Sabin, a Deputy Assistant Attorney General in the Criminal Division, Stuart Bowen, the Special IG for Iraq Reconstruction, and Thomas Gimble, the Principal Deputy IG for DOD, testified before the House Judiciary Committee's Subcommittee on Crime, Terrorism, and Homeland Security, regarding procurement fraud and the War Profiteering Prevention Act, which is currently pending in Congress. On March 19, 2007, these panelists also testified before the Senate Judiciary Committee on the same topics. On both occasions, the panelists provided a comprehensive report on the work of the Task Force.

III. Conclusion

The Task Force has encouraged an unprecedented level of collaboration and coordination at all levels of government to combat procurement fraud. There is an increase in joint investigations and prosecutions of civil and criminal procurement fraud cases among the various components of the Department of Justice. Similarly, IGs are pooling their resources to achieve better results in these cases. Additionally, all of the working committees enjoy high-level leadership and include energetic representatives from a wide spectrum of agencies. The Task Force already has amassed a strong record of accomplishment in its first six months, and we look forward to continuing to improve upon this success. In the months to come, we intend to draw upon the creativity and expertise of our membership to develop new areas where the Task Force can make a dynamic difference and continue to serve as a driving force to combat procurement and grant fraud.